An Equity-Based Crowdfunding Case Study

Equity-based crowdfunding platforms are fast becoming the go-to capital sources for a lot of, especially small and medium-sized enterprises. With many changes happening in this industry, this article will take a closer look at Equity-Based crowdfunding in the form of a case study.

We will analyze the equity-based crowdfunding platform, Eureeca, as a practical example. Why a case study on Eureeca? Because it is one of the most successful and popular platforms in the world. Learning more about it will provide some insights into what makes an equity-based crowdfunding platform successful***. The fact that we focus on Eureeca is in no form or way an endorsement or advice to anyone to use that platform.***

Eureeca Case Study

Eureeca is one of the first global (i.e. operating in several countries where it has been authorized) equity-based crowdfunding platforms. It enables members of its investor network -who range from casual and angel investors to institutional firms- to buy shares in growth-oriented businesses while providing operational businesses with crucial access to capital.

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Launched in 2013, Eureeca has a global presence in various locations in the Middle East, Europe, and Southeast Asia. Eureeca Limited is fully licensed, authorized, and regulated by the Financial Conduct Authority in the UK (No. 624555), which is also the regulatory body for their Branch Office in The Netherlands, which is also regulated by The Netherlands Authority for the Financial Markets. It is also authorized and regulated by the Securities Commission in Malaysia since 2015, as a registered electronic facility (Equity Crowdfunding Platform) under their Capital Markets and Services Act 2007. From its global offices, Eureeca offers high-yield potential investment opportunities from the Middle East, Europe, and Southeast Asia to its investor network. Businesses in pursuit of raising funds can leverage this network for capital, strategic connections, and expansion into new markets.

Eureeca is aimed at going concerns of small businesses that are already up and running but have previously relied on other funding sources. These firms are still often too small to tap formal public equity markets (if they even exist in their countries) and are therefore turning to this platform.

How the Platform Works

A platform like Eureeca, which operates in multiple markets across the world, gives SME firms more comprehensive access to global capital and enables entrepreneurs to obtain investments from people in countries they are looking to expand to. This provides on-the-ground support for expanding scale and moving into new markets.

Eureeca investors can be friends and family, customers, casual retail investors, angel investors, and institutional firms. Since there are no constraints on the investor types that can invest, this platform can leverage funding sources from a pool of both small and larger international investors. The projects are all considered small- and medium-sized enterprises (SMEs). These are businesses that have been in existence for two to three years and have already generated revenue. Many are high-growth businesses in the digital and tech industries, as well as the retail industry. On this platform, a business can raise a minimum of $250,000 per year. Many platforms have similar setups, though perhaps with different fees and funding periods.

To help protect investors, Eureeca provides them with a cooling-off period up to seven days after the proposal closing (i.e., hitting its funding target). This policy enables the investor to consider any further information obtained while the funding campaign is still running. Eureeca also has the right to modify or cancel any proposal if it has undergone an adverse material change. Under these circumstances, the funds will be returned to the investor.

If subsequent investments are sought, the equity stake may be diluted, although the financial impact will depend on the valuation of the business at that point. If successful, the per-share value may be the same or higher than it was originally, just as it is for a publicly traded equity share. The business itself determines whether interim share sales will be allowed, or an explicit exit strategy will be provided.

How the Platform became Successful

Since its launch in 2013, it is no secret that Eureeca has received its fair share of accomplishments. Today, it is probably the first and most regulated equity crowdfunding platform in the world, licensed to operate across four continents (In the UK, UAE, Netherlands, and Malaysia). It boasts of an active investor base of over 25,000 from 30+ countries; all who have invested an average of $5900 – higher than the market's investment average.

In 2016, Eureeca held its first self-crowdfunding campaign, where it raised $400,000 in just 12 days of being online. If that is not impressive enough, in 2017, during their second self-crowdfunding campaign, Eureeca raised $400,000 in just 6 hours! This crowdfunding round attracted over 70 investors from 15 countries.

With Eureeca celebrating numerous success stories from their platform, it looks like they know what they are doing. But how did they become so successful? What is their secret one might ask?

- ### New Market Approach

Eureeca's success seems to stem from its approach to the equity crowdfunding market. Unlike other platforms, Eureeca co-founders, Chris Thomas and Sam Quawasmi decided to create a crowdfunding model that allows cross border investors, to invest in businesses from other countries online.

The model was first approved and licensed by the Dubai International Financial center, and later on, in 2015, by the UK's Financial Conduct Authority, Malaysia's Security Commission, and the Netherland's Authority for the Financial Markets.

This opened doors for more investors, increasing their tally to more than 25,000 to date and initiated Eureeca's goal of expanding to other global markets.

The co-founders, Chris Thomas and Sam Quawasmi also played a huge role in the platform's success. It seems that thanks to their experience in international investment banking across multiple countries, they were able to gain the trust of prospective investors globally.

In all its markets, Eureeca was been using a 'light-touch' strategy, where about 2 businesses from each geography would open for crowdfunding on the platform quarterly. as mentioned above.

The raised capital on the mentioned campaigns was crucial to fully entrenching the platform into the established markets and to also tap into new markets. The success of these campaigns also paved the way for phase 2, which targeted between $250,000 and $1 million, and phase 3, which targeted between $1 million to $5 million.

- **Investor Capital Security**

The Eureeca digital platform has also taken a keen interest in the investor's capital security by improving its validation measures. Before your business is eligible to raise funds on the platform, Eureeca does complete background checks on you and your business, to ensure that investors are safe from fraudsters. This attracted more investors to the platform.

In 2016, Eureeca also signed a partnership with the American International Group (AIG), to provide *Crowdfunding Fidelity*, the first crowdfunding insurance for investors. As a result of this move, Eureeca's popularity expanded to more investors globally.

- **Focus on SMEs**

Thanks to the co-founders' experience in Investment banking, Eureeca noticed the challenges faced by most Small and Medium-sized Enterprises (SMEs). These businesses usually lack enough capital to run during their first five years. This is despite creating about 50% of the jobs in almost any economy.

Eureeca is designed to provide a transparent and cost-effective way for these businesses to access the capital they need to expand their operations. With banks still often unwilling to finance young SMEs, Eureeca stepped up and offered an additional option.

It gives SMEs the opportunity to convert their customer's emotional connections to investments. It also allows them to tap into their networks and increase the amount of money they can raise.

In fact, in 2015, a real estate investment provider, Homes or Houses, raised on their platform a record of $610,000, which was 151% of its initial capital amount needed. This campaign proved to other businesses that equity crowdfunding actually works.

It also made it easier for Eureeca to turn into the European and the Southeast Asian market. Nonetheless, this model did not replace angel investors and venture capitalists. Instead, the positive spin-off was that it drove them to invest back in SMEs.

Eureeca's Fails

Despite their fairly massive success in the equity crowdfunding market, Eureka also faced several challenges that it had to and still must overcome. The company has done a lot in terms of regulatory legalities regarding crowdfunding in different countries, but that fight is still far from over.

Eureeca faces the hurdle of streamlining the regulatory environment to favor both the firms seeking funds and the investors alike.

Eureeca has pioneered this change, starting with collaborations with several governments in the Middle East and Asia. It is also struggling to educate the emerging markets in different countries to develop the necessary frameworks for the incorporation of secure crowdfunding platforms.

Conclusion

Eureeca has come a long way since its inception in 2013. Its journey has been full of challenges and obstacles which they have had to tackle. Their plethora of testimonials is clear evidence that it's possible to walk into the unchartered waters in the funding business and still make it a success.

Eureeca's success can probably to a high degree be attributed to their experienced team of leaders, their willingness to explore new markets, and their vision to bring in something new to cater to, especially SMEs. As a real crowdfunding platform, they are very much focused also on the interests of and solutions for investors interested in participating in interesting SMEs.

Now we have an idea of what it takes for an equity-based crowdfunding platform to work. Have you ever wondered whether equity-based crowdfunding platforms are rivals of securities exchanges? Is that a myth or is it possible for them to join forces? In the next publication, we will discuss this and more.

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